



Transition
Pathway
Initiative

Transition Pathway Initiative (TPI) Annual State of Transition Report, 2019

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The State of Transition

Welcome from Chair and Host

Emma Howard Boyd

Chair of the Environment Agency
& Chair of the EA Pension Fund
Investment Committee

Clive Mather

Chair of the Church of England
Pensions Board

Waqas Samad

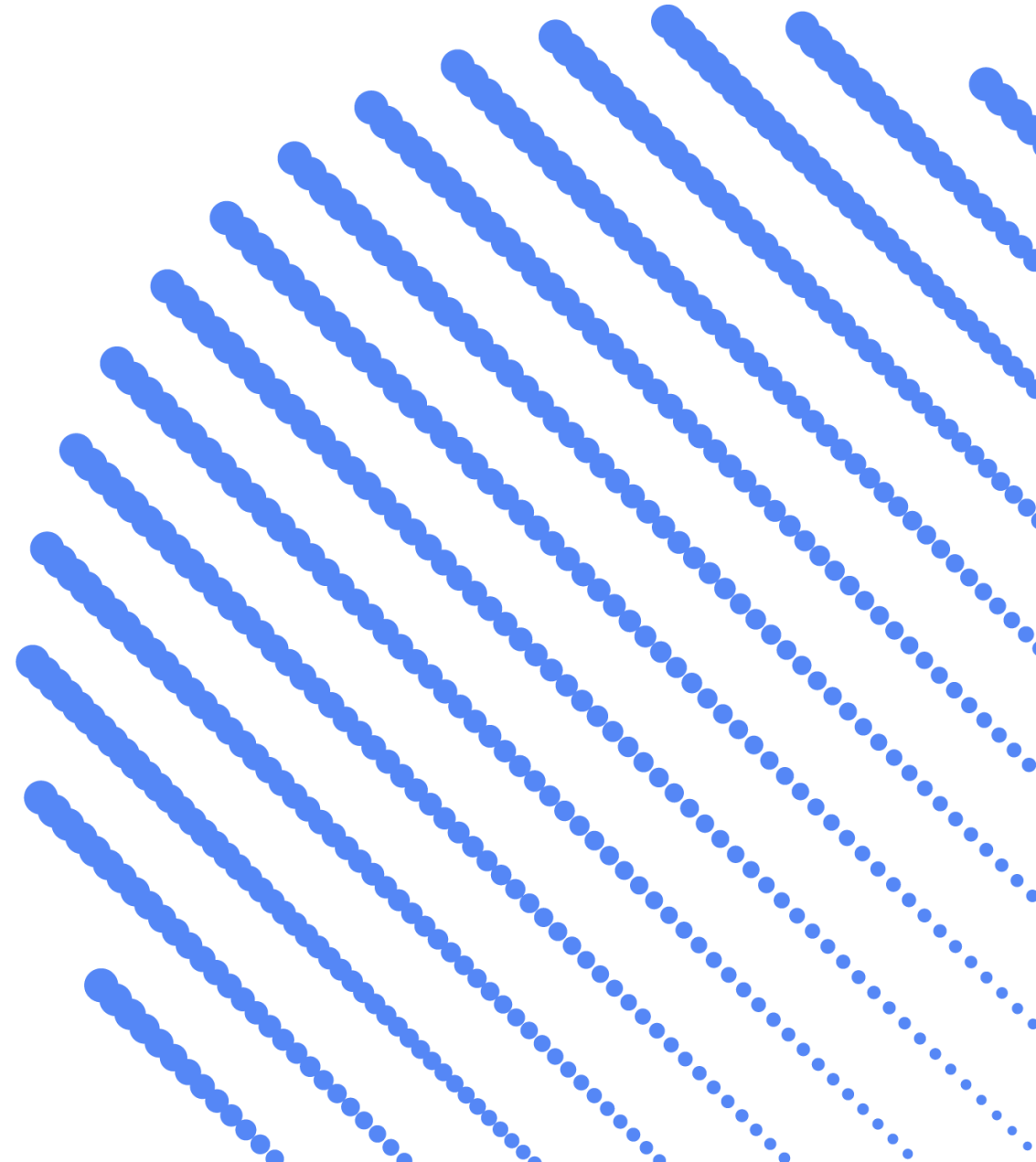
Group Director of Information Services
at London Stock Exchange Group



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TPI State of Transition Report 2019

Professor Simon Dietz, London School of Economics



About the Transition Pathway Initiative

About TPI

TPI is a global initiative led by Asset Owners and supported by Asset Managers

Established in 2017, investors supporting TPI jointly represent over \$14 trillion combined Assets Under Management and Advice

TPI assesses companies' progress on the transition to a low-carbon economy, supporting efforts to address climate change;

- in line with the recommendations of TCFD
- providing data for the Climate Action 100+ initiative

All TPI data are open-access and online

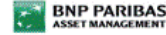
We currently cover 274 companies in 14 sectors of the economy, accounting for c. 41% of emissions from public companies worldwide



TPI Partners



TPI Supporters



Research Funding Partners



We would like to thank our Research Funding Partners for their ongoing support to the TPI and their enabling the research behind this report and its publication

An overview of the TPI Methodology and Tool

Overview of the TPI Tool

TPI assesses companies on:

1. *Management Quality*, i.e. governance/management of emissions and transition risks/opportunities
2. *Carbon Performance*, i.e. quantitative benchmarking of companies' emissions pathways against Paris Agreement

We select largest public companies by market cap and highest emitters in 14 sectors:

- 116 energy companies (coal mining, electricity utilities, and oil and gas)
- 102 in manufacturing and basic materials (incl. aluminium, cement, paper, steel, etc.)
- 41 in transportation (autos and airlines)
- 15 in consumer goods and services

TPI Tool

The TPI tool enables the assessment of companies' carbon management quality and carbon performance, within a selected sector.

A tutorial to help you use the tool can be found [here](#).

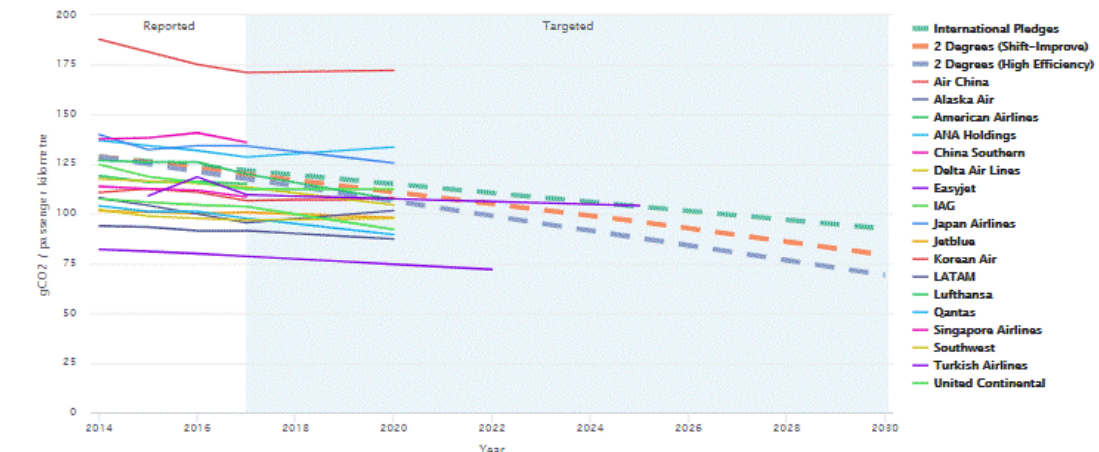
[Download complete data set as an MS Excel file \(updated May 2019\)](#)

Filter by sector: Airlines [Submit] [Clear all]

Go straight to a company: [Choose a company]

Filter companies

Management Quality: Airlines



TPI Design Principles

Company assessments based only on publicly available information

Outputs useful to Asset Owners and Asset Managers

Builds on existing initiatives and disclosure frameworks, such as TCFD

Pitched at a high level of aggregation; applies to firm as a whole



Management Quality

Level 0

Unaware

Level 1

Awareness

Level 2

Building capacity

Level 3

Integrating into operational decision making

Level 4

Strategic assessment

Based on ESG ratings data provided by FTSE Russell

Company does not recognise climate change as a significant issue for the business

Company explicitly recognises climate change as a relevant risk/opportunity for the business

Company has a policy (or equivalent) commitment to action on climate change

Company has set GHG emission reduction targets

Company has published info. on its operational GHG emissions

Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy

Company has set quantitative targets for reducing its GHG emissions

Company reports on its Scope 3 GHG emissions

Company has had its operational GHG emissions data verified

Company supports domestic & international efforts to mitigate climate change

Company has a process to manage climate-related risks

Company discloses materially important Scope 3 GHG emissions (coal, oil and gas)

Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions

Company has incorporated ESG issues into executive remuneration

Company has incorporated climate change risks and opportunities in its strategy

Company undertakes and discloses climate scenario planning

Company discloses an internal carbon price

Carbon Performance

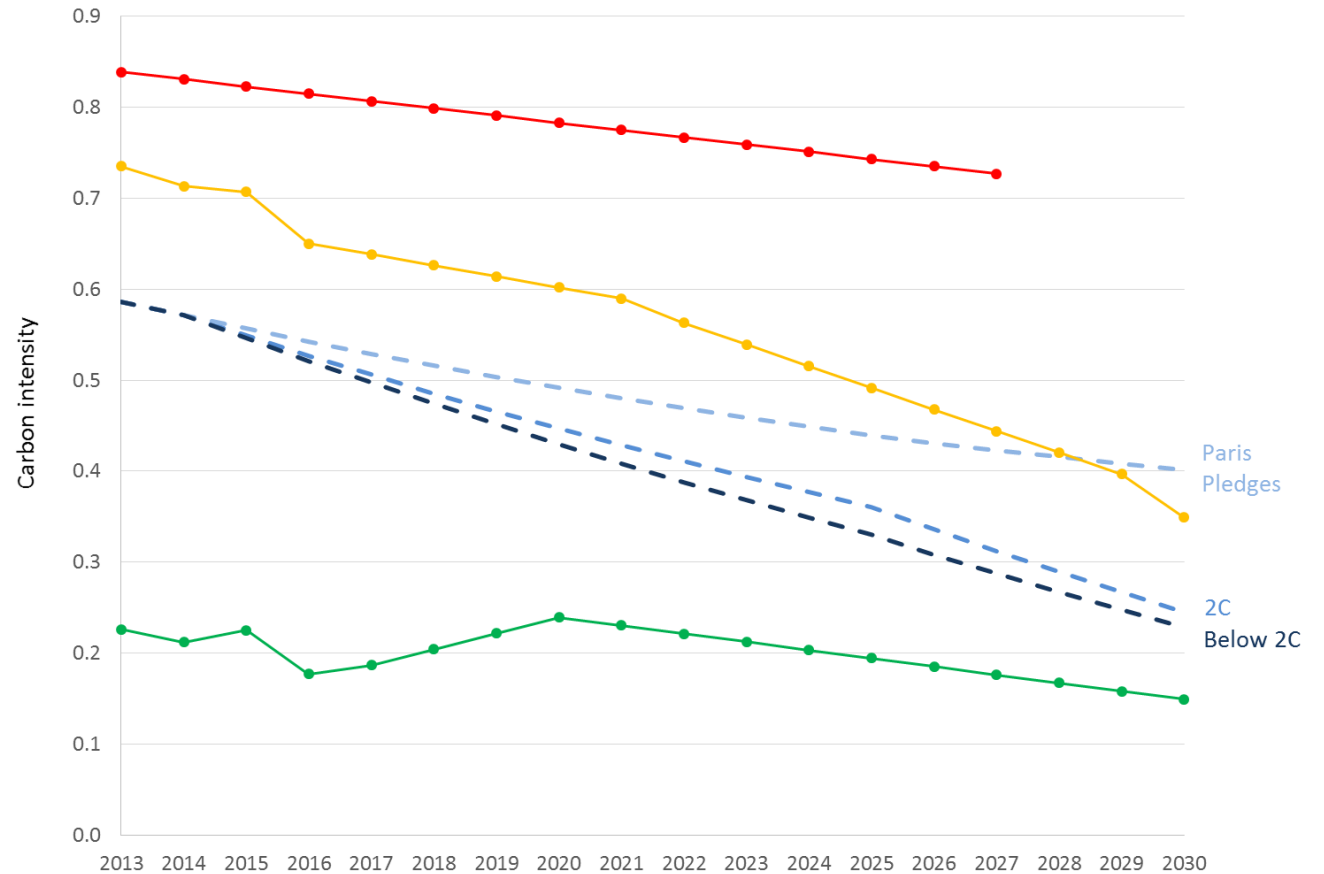
Tests the alignment of company targets with the Paris Agreement goals, using the same approach as Science-Based Targets*

Three benchmark scenarios, which in most sectors are:

1. *Paris Pledges*, consistent with emissions reductions pledged by countries as part of the Paris Agreement (i.e. NDCs)
2. *2 Degrees*
3. *Below 2 Degrees*

Benchmarking is sector-specific and based on emissions intensity (e.g. tonnes of CO₂ per MWh electricity generated)

*We use the Sectoral Decarbonization approach (SDA), which was created by CDP, WWF, WRI in 2015



Company A is not aligned with any Paris benchmark

Company B is eventually aligned with the Paris Pledges, but neither 2C nor Below 2C

Company C is aligned with all Paris benchmarks, including Below 2C

The State of Transition 2019

Management Quality level

Level 0
Unaware

9 companies: 3%

- 5 Manufacturing and basic materials
- 1 Energy
- 3 Transport
- 0 Consumer goods and services

Level 1
Awareness

60 companies: 22%

- 29 Manufacturing and basic materials
- 21 Energy
- 9 Transport
- 1 Consumer goods and services

Level 2
Building capacity

57 companies: 21%

- 17 Manufacturing and basic materials
- 35 Energy
- 5 Transport
- 0 Consumer goods and services

Level 3
Integrated into operational decision-making

71 companies: 26%

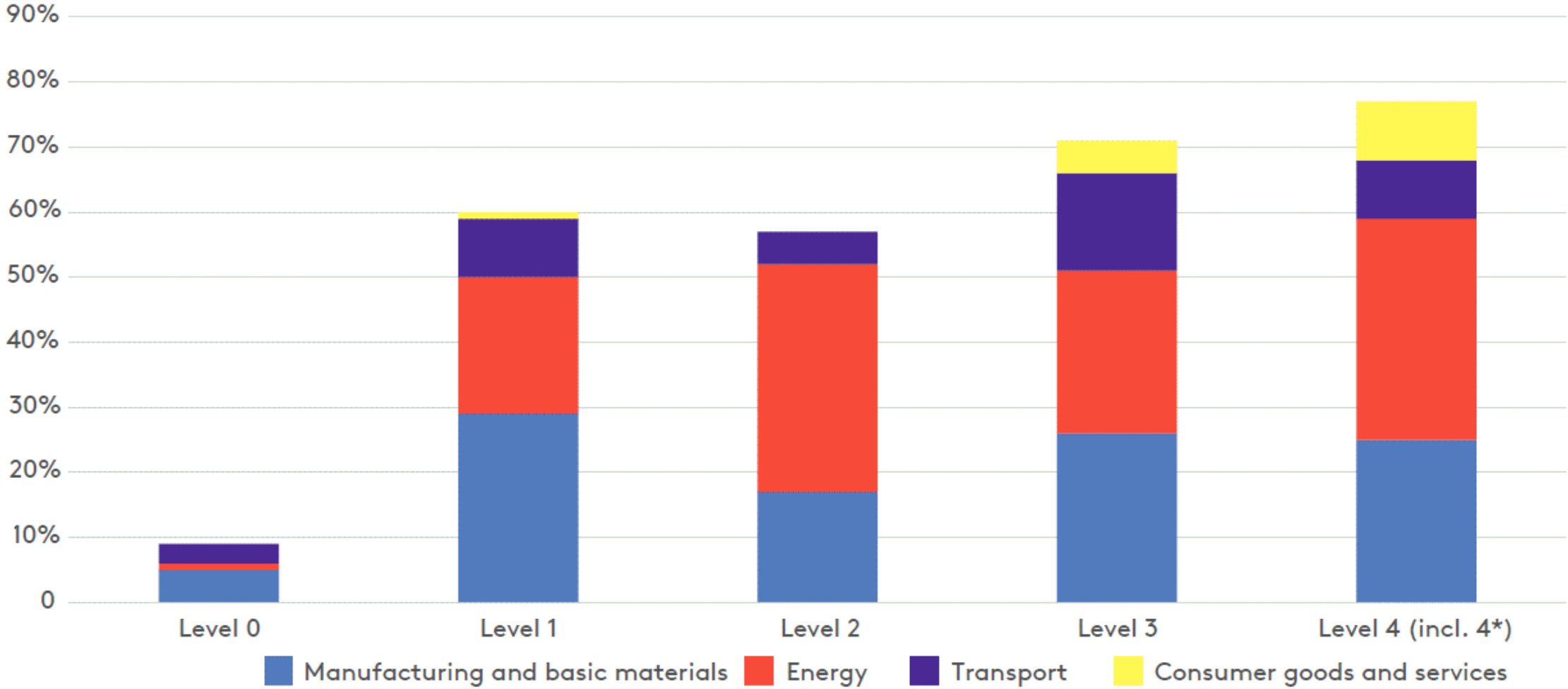
- 26 Manufacturing and basic materials
- 25 Energy
- 15 Transport
- 5 Consumer goods and services

Level 4
Strategic assessment

77 companies: 28%

- 25 Manufacturing and basic materials
- 34 Energy (including eight 4*)
- 9 Transport
- 9 Consumer goods and services

Management Quality level by sector cluster



4* companies

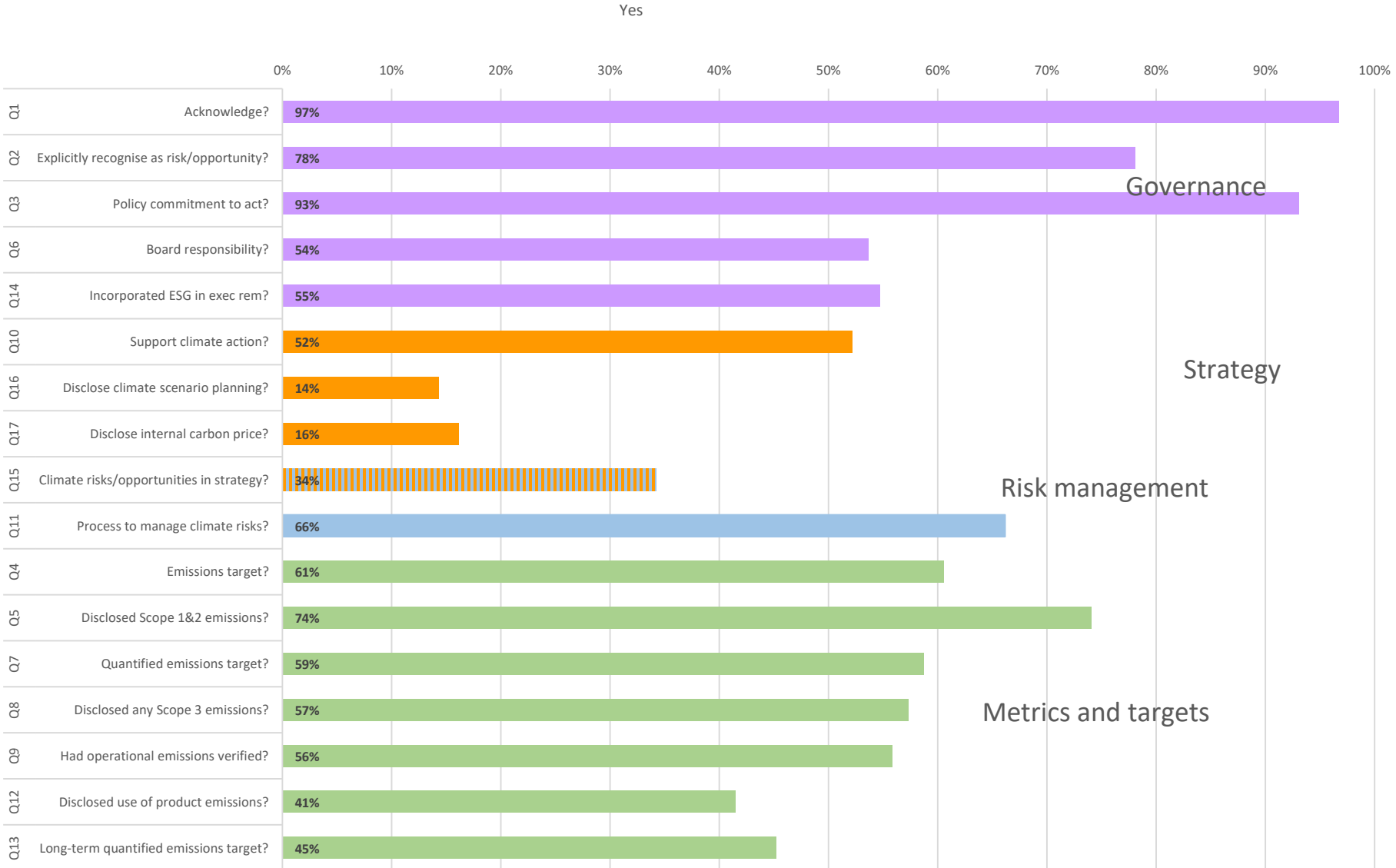
Some companies satisfy all Management Quality criteria

These companies do all the basics, and:

- Have quantitative, long-term targets
- Incorporate ESG into executive remuneration
- Incorporate climate change risks/opportunities in company strategy
- Undertake and disclose climate scenario planning
- Disclose an internal carbon price

4* Company	Sector
AGL Energy	Electricity
Anglo American	Coal mining (general mining)
BHP Billiton	Coal mining (general mining)
Centrica	Oil and gas distribution
Equinor	Oil and gas
Gas Natural	Oil and gas distribution
National Grid	Electricity
Repsol	Oil and gas

Management Quality, indicator by indicator against TCFD recommendations



Trends in Management Quality

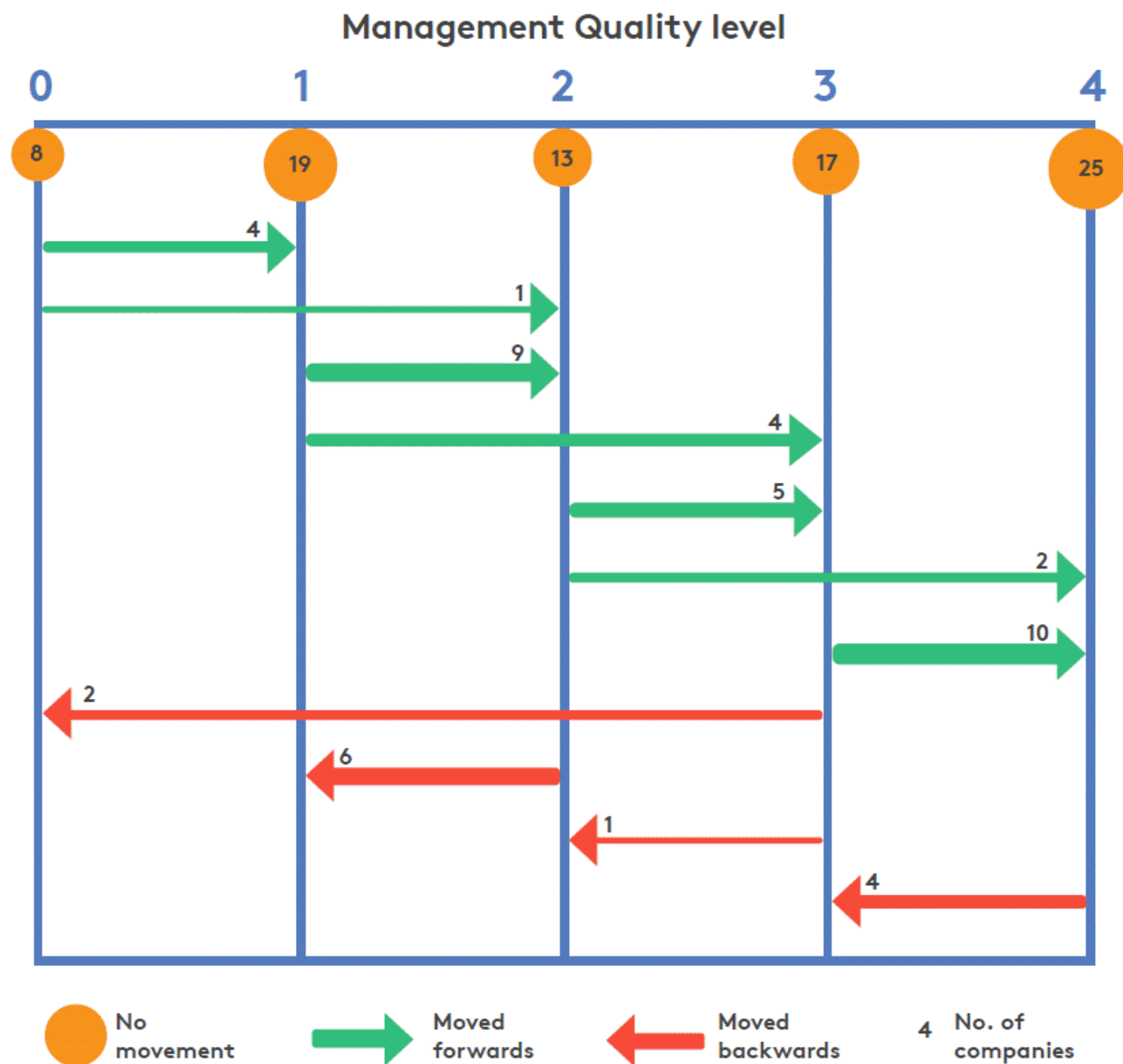
We have trend data on 130 companies, showing changes between '17 and '18

- 82 companies stayed on the same level
- 35 companies moved up ≥ 1 level
- 13 companies moved down ≥ 1 level

Most common move is from L1 to L2-3

- Mostly (70%) this was achieved by explicit recognition of climate change as a relevant business risk/opportunity

Oil and gas producers were particularly apt to make progress, from L1 to L2-3, and L2 to L3-4

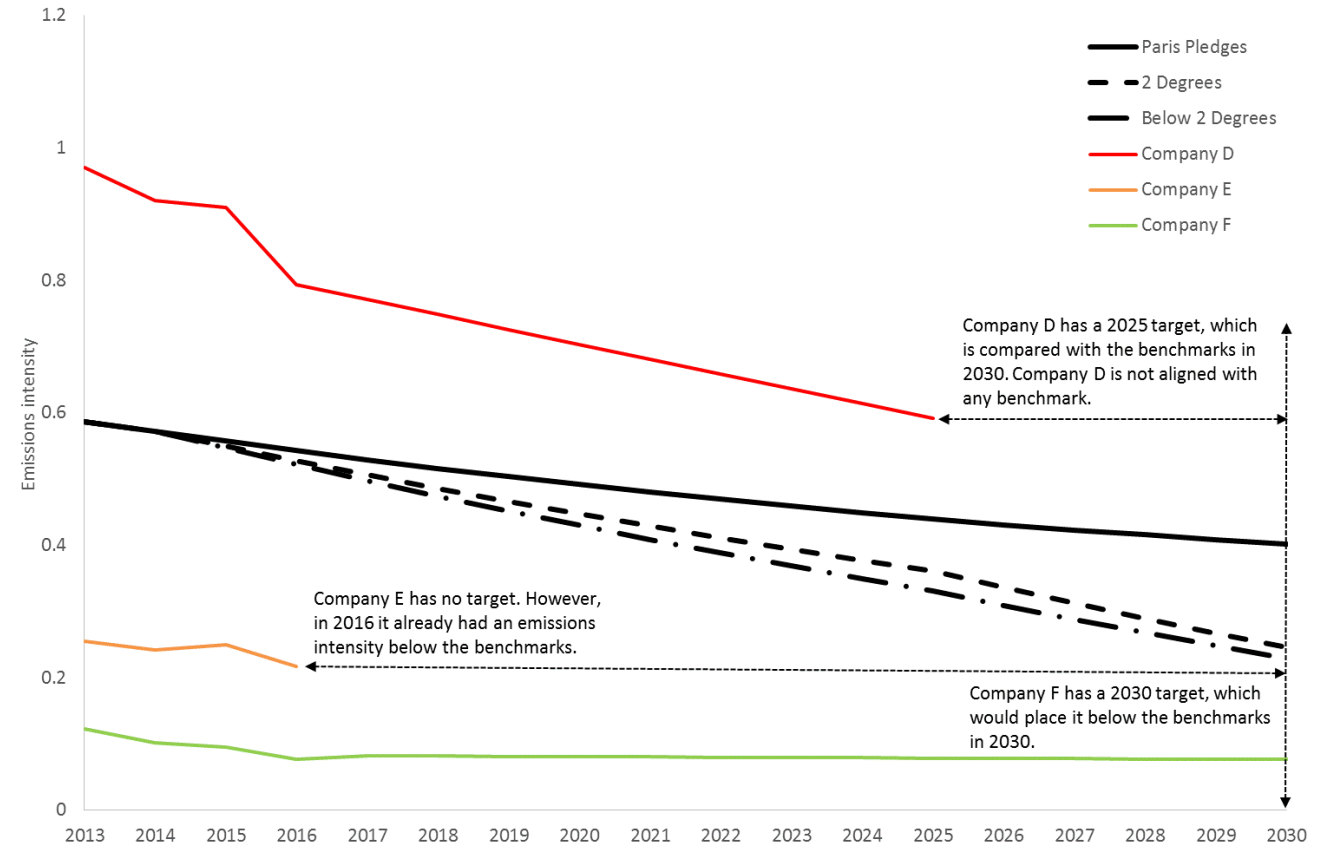


How TPI's Carbon Performance data are reduced to a single indicator of alignment with Paris

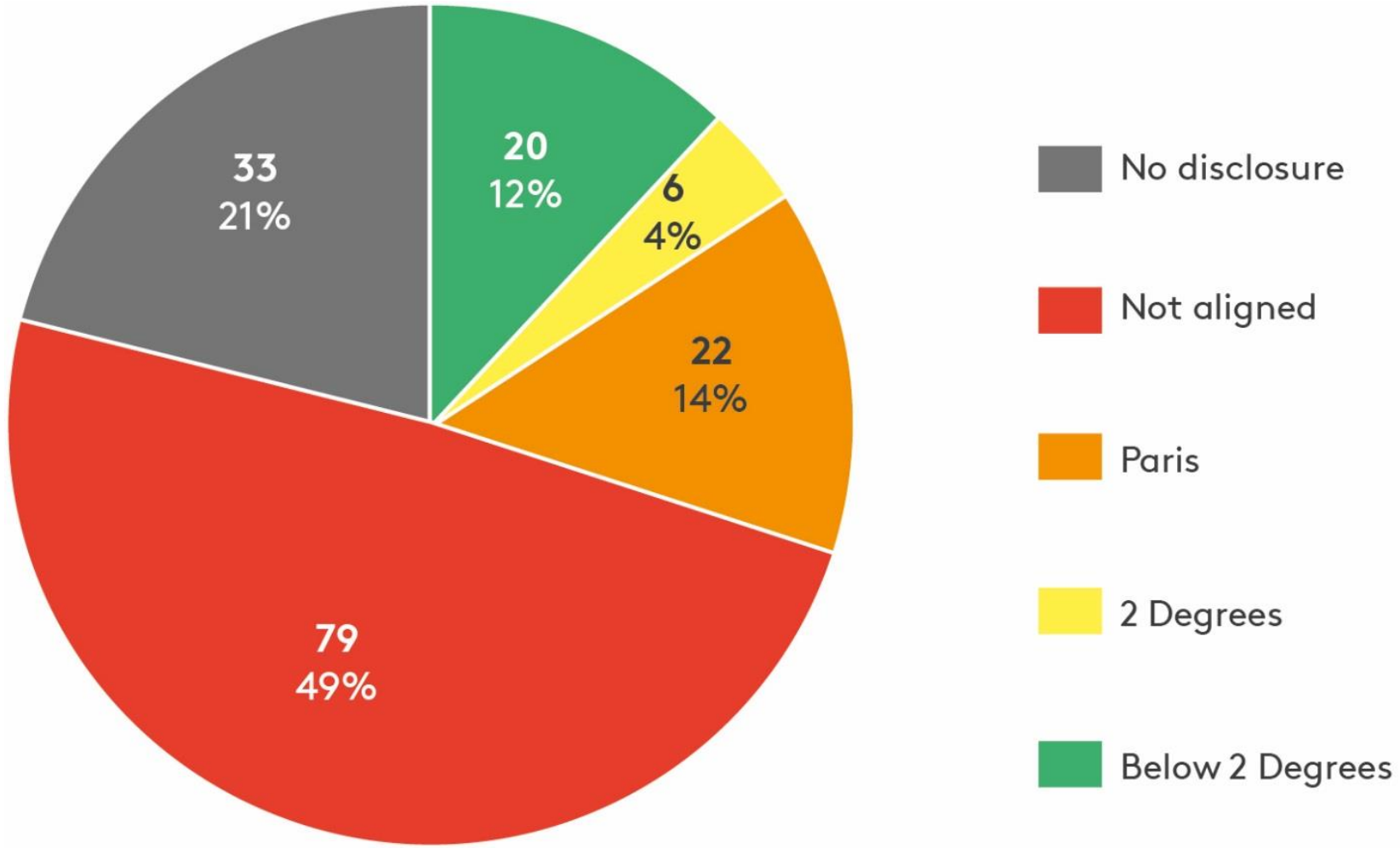
We compare a company's emissions intensity in the last year for which we have data with the benchmarks in 2030.

For example:

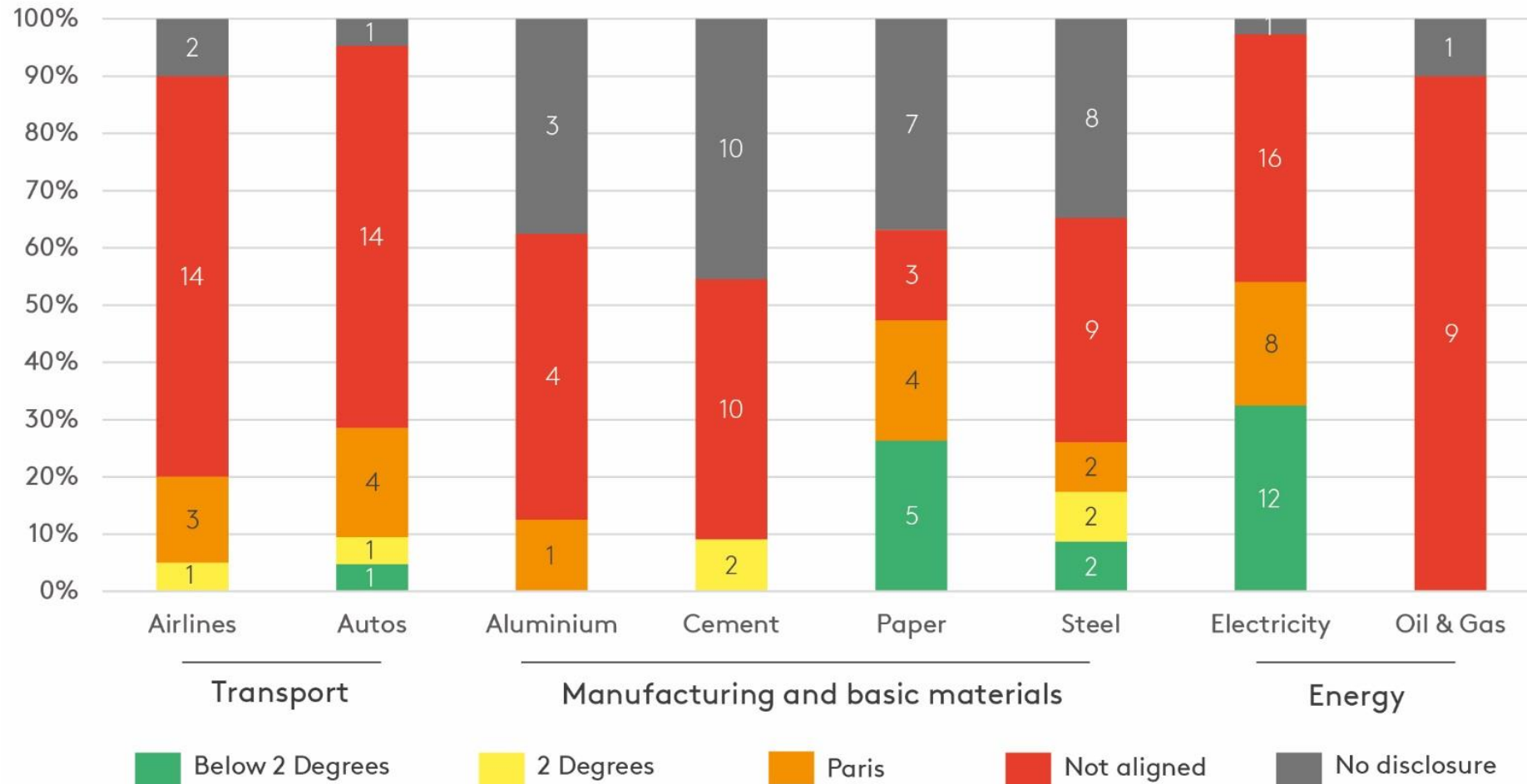
- Company with a 2030 emissions reduction target – the company's expected 2030 emissions intensity is compared with the benchmark emissions intensities in 2030 (straightforward 2030 comparison);
- Company with no emissions reduction target – the company's historical emissions intensity is compared with the benchmark emissions intensities in 2030 (comparison of where the company is now with where it would need to be in 2030).



Alignment with the Paris Agreement benchmarks



Alignment with the Paris Agreement benchmarks by sector



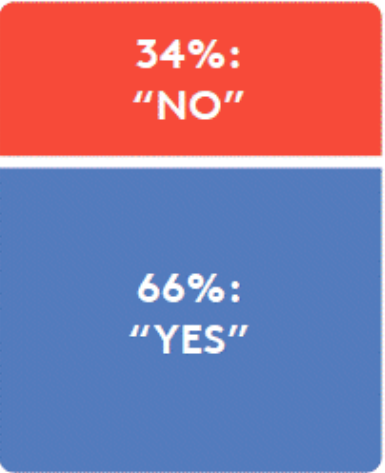
Does Management Quality predict Carbon Performance?

Management Quality is about inputs; Carbon Performance is about outputs

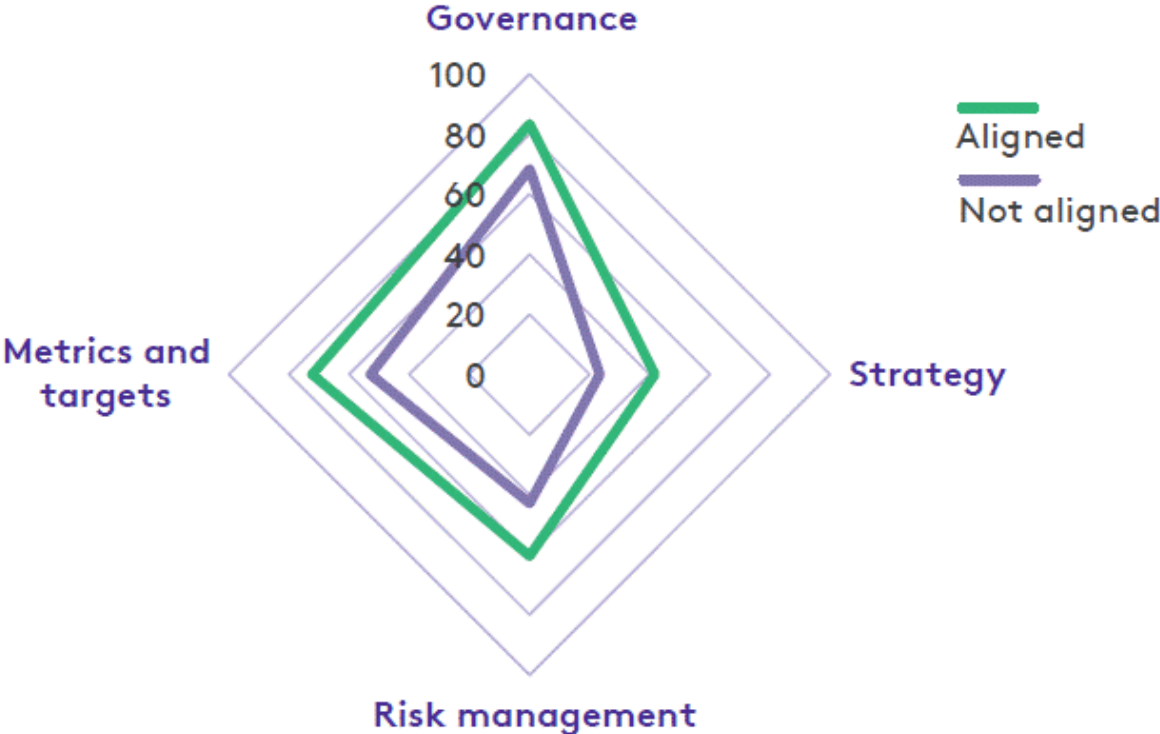
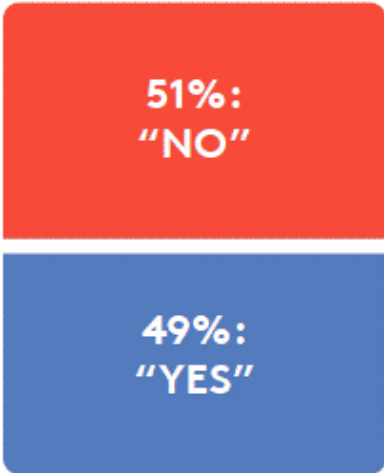
We find that Management Quality and Carbon Performance are positively associated

This association holds in each of the four TCFD areas, but particularly in strategy

Aligned companies



Non-aligned companies



Summary of results

Most companies have built basic capacity to manage the low-carbon transition

Too many big emitters are yet to integrate climate change into their operations, let alone take a strategic approach

Significant disclosure gaps remain on corporate emissions

Few companies are aligned with the Paris goals, but the leaders show what is possible

Management Quality and Carbon Performance are correlated, but investors need to engage directly on emissions targets





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Reflections

Nathan Fabian

Chief Responsible Investment Officer
Principles for Responsible Investment (PRI)

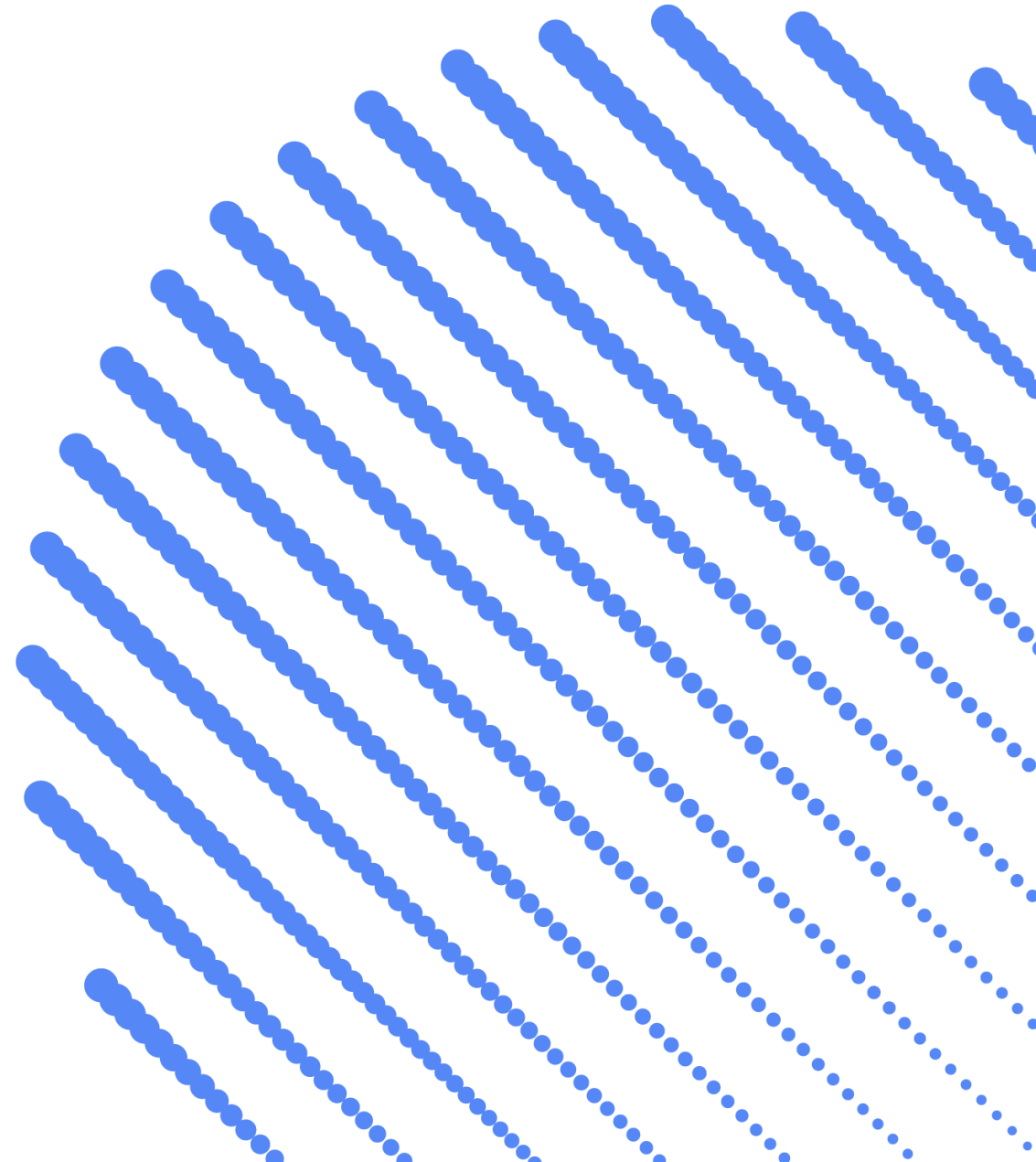


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Transition Pathway Initiative (TPI) 2020-2025

Adam C.T. Matthews & Faith Ward
Co-Chairs, Transition Pathway Initiative (TPI)

July 2019



Supporters and users

- **50 investors** with close to **\$15 trillion*** combined Assets Under Management and Advice publicly support TPI
- **320 investors** with over **\$33 trillion*** combined AUM use TPI data in the **CA100+ initiative** aimed at ensuring the world's largest corporate greenhouse gas emitters take necessary action on climate change

* as of July 9, 2019



TPI Supporters

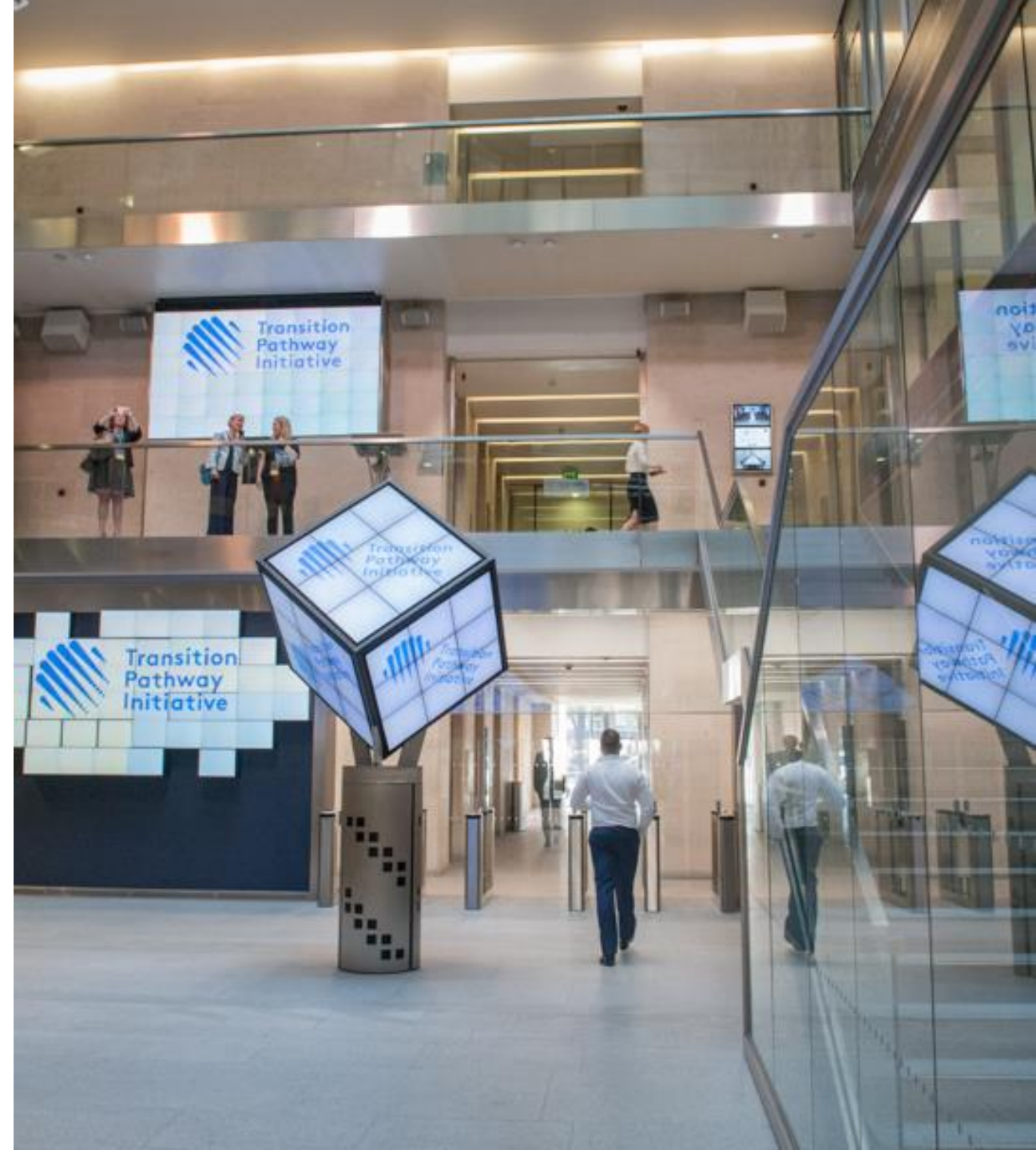


How investors are using TPI

TPI is deliberately non-prescriptive in how people can use it

Funds have highlighted various ways in which they are using it, including:

- Understanding transition risk
- Informing investment decision-making
- Supporting below 2 degree alignment of pension funds
- Informing construction of an index
- Reporting tool for Managers to Asset Owners
- Guiding voting
- Targeting and tracking engagement



Key achievements to-date

TPI sectoral coverage (June 2019)

Sector	Number of companies currently assessed for Management Quality	Number of companies currently assessed for Carbon performance
Oil and gas	45	10
Electricity utilities	46	36
Coal mining	19	0
Automobiles	21	19
Airlines	20	18
Cement	22	12
Steel	23	15
Aluminium	12	5
Paper	19	12
Oil and gas distribution	6	-
Services	7	-
Consumer goods	9	-
Other basic materials	9	-
Other industrials	18	-
Total*	274	127

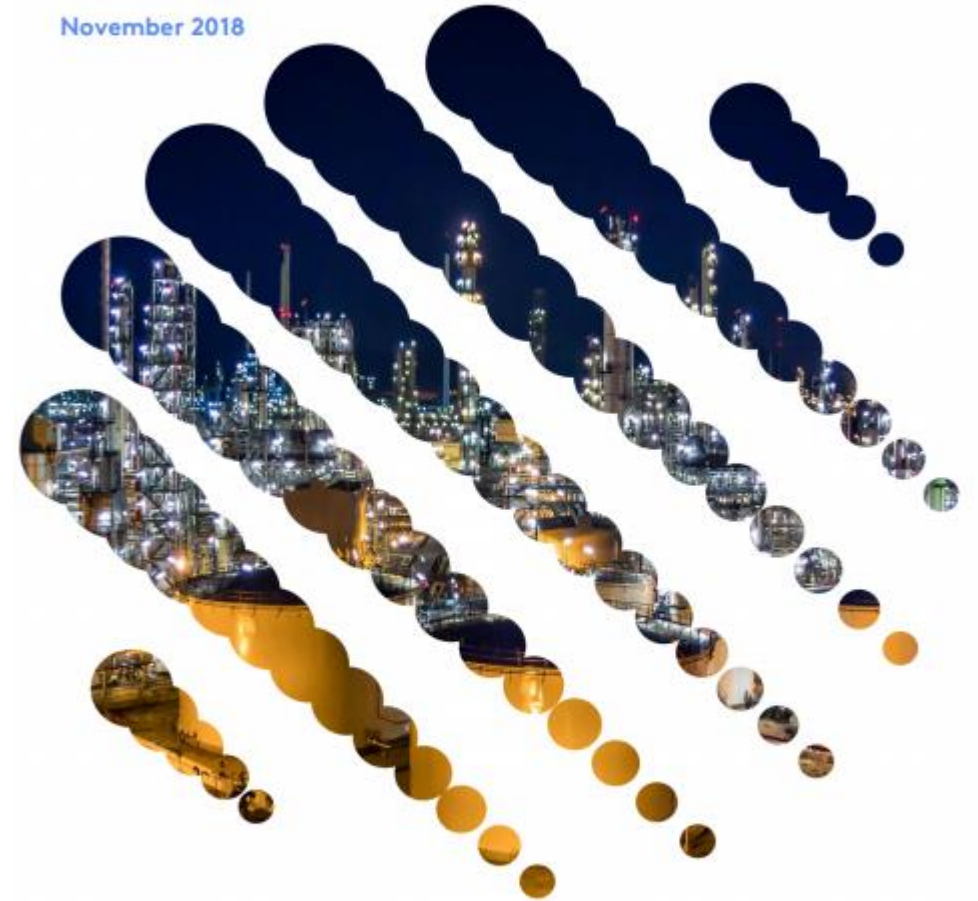
*Companies assessed in multiple sectors are counted once

Key TPI achievements to-date

- TPI has **developed new, academically robust methodologies** to enable investors **to assess the carbon performance of companies in carbon intense sectors like oil and gas, steel, aviation and transport**
- For **oil and gas, automobiles and aviation**, this is the **first time that decision-useful tools and methodologies have been developed** to enable investors to assess and understand these companies' and sectors' most significant emissions (e.g. downstream emissions from the oil and gas sector, vehicle-related emissions from the automobile sector)
- **Facilitating discussions with the mining sector** to create a methodology by which to assess them

Carbon Performance Assessment in Oil and Gas: Discussion paper

November 2018

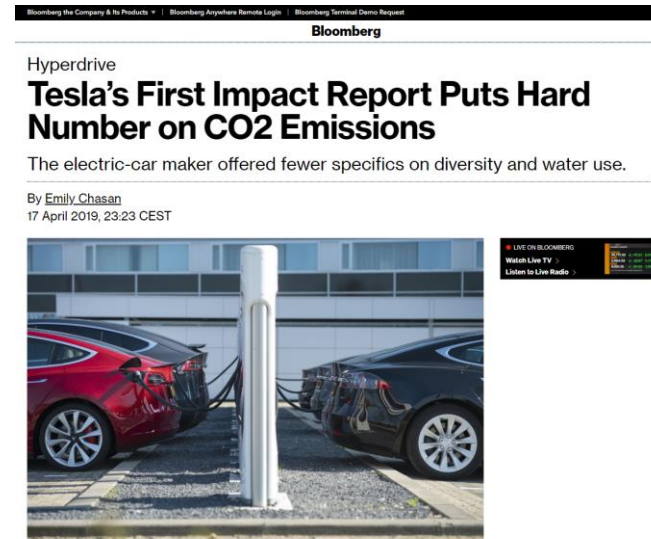


Simon Dietz, Carlota Garcia-Manas
Dan Gardiner, William Irwin,
Adam Matthews, Michal Nachmany,
Rory Sullivan, Faith Ward

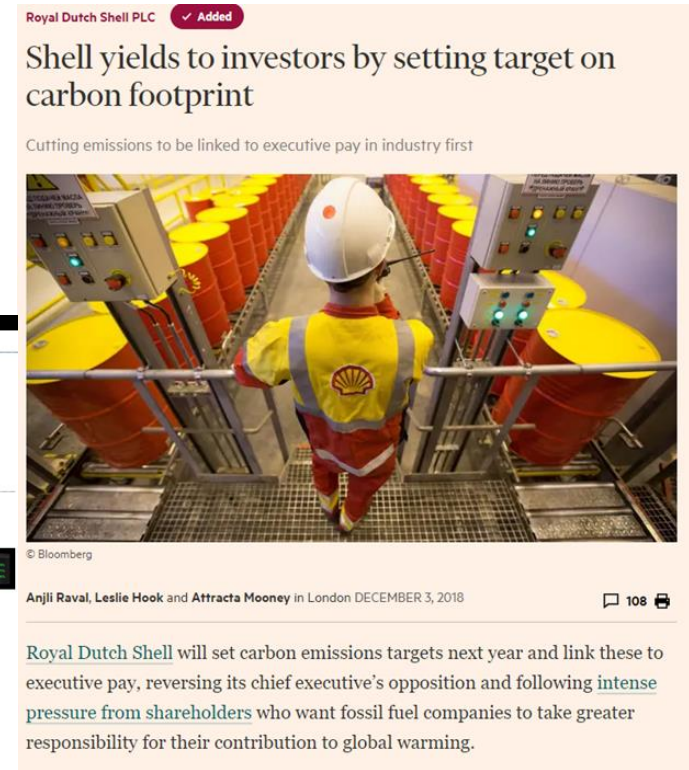


Key TPI achievements to-date

- TPI selected as the data provider for **Climate Action 100+ (CA100+)** to assess companies public disclosures
- **Royal Dutch Shell joint statement with CA100+ referenced TPI** assessments and ensuring data provision
- Following TPI's first assessment, **Tesla** published their first Sustainability report
- **Aviation** sector now engaging with TPI and investors around off-sets
- TPI **Awarded** Finance For The Future Award



A Tesla charging station in Zaltbommel, Netherlands. Photographed: Jasper Juhan/Bloomberg



Extensive media coverage (across 27 countries*)

Africa	Americas	Asia Pacific	Europe	Middle East
Nigeria South Africa	Brazil Mexico Peru United States	Australia Bangladesh India Japan Malaysia Singapore South Korea Taiwan	Cyprus Czech Republic France Germany Italy Norway Poland Portugal Spain Sweden United Kingdom	Qatar Saudi Arabia
<i>*as of June 2019</i>				

Future plans

Impact on companies: shaping the debate

TPI Aims to:

- be **‘THE’ high level assessment tool** used by Asset Owners globally and the wider market to understand transition risk and to support the transition to a below 2-degree aligned world
- be the key **TCFD aligned tracking tool of company public disclosure** for investors undertaking engagement on climate change, either through the CA100+ or other initiatives
- **enable assessments of portfolios** with listed assets and evaluation of Fund Managers holdings
- be a **‘go-to’ reference** for considered commentary and annual assessment of the progress of transition within sectors/individual companies



Key asks from investors informing TPI's 2020-2025 strategic plan

- An **increase** in the number of **companies and sectors** covered
- More **geographical coverage** to include companies in high impact sectors who have a small presence internationally but a big presence in the domestic setting
- An expansion of the asset classes we cover to include **Sovereign and Corporate Bonds**



TPI will achieve this through

- **Increasing the number** of equity issuers assessed both in terms **of geography and sectors**
- Continued **active outreach to the investor community globally**
- Expanding the assessment to also **cover corporate bond issuers**
- Developing a **TPI methodology to assess Sovereign bonds**

This will increase emissions **coverage of listed companies from 40% to 80% of carbon emissions** and give investors global tools to assess the carbon performance of both equities and fixed income portfolios

- Establishing new voluntary roles: **TPI Ambassadors** and **TPI Regional Vice-Chairs**
- Dedicated **communications capacity**

Further enhancing TPI's methodology as the free-to-use tool to assess public disclosure

- **Maintenance and further enhancing TPI standards/methodology** for the **14 sectors** already analysed as well seeking further academic publications
- Development of a methodology for assessing **carbon performance for new sectors** bringing the total number of assessed carbon intensive sectors to approx. **20**
- Deepening TPI analysis to **bridge Management Quality & Performance**
- Integration/approach developed to **include physical risk assessments within TPI's analysis**
- Development of a methodology for **assessing Sovereign Bonds**
- Deepening **analysis of corporate climate lobbying**
- Maintenance and enhancement to **remain the main data partner** for assessment of company public disclosure on climate change for the **CA100+** \$33 trillion AUM engagement initiative.

Sectors are not homogeneous and TPI may – for reasons of cost, technical complexity or utility – not develop carbon performance methodologies for all companies within a sector or for all sub-sectors within a sector.

Assess the trends and state of the transition

- Deliver an annual high-level event which will
 - assess the state of transition to a low carbon economy
 - be a forum to review what is and is not working
 - enable the sharing of best practice
 - help re-frame the debate within key sectors and across sectors.



TPI data releases until end of 2019

Sectors	Number of companies	Publication date
CA100+	159	CA100+ will be publishing updated TPI data in September
Energy – electricity utilities, oil and gas, coal mining.	64	September
Transportation autos, airlines, shipping (new sector)	60-70	End October
Carbon intensive manufacturing – cement, steel, aluminium, paper, chemicals (new sector)	90-100	End November



Thank you

transitionpathwayinitiative.org

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